MINUTES OF THE
CAPITAL PROJECTS AND BOND
OVERSIGHT COMMITTEE

February 18, 1998

The Capital Projects and Bond Oversight Committee met on Wednesday, February 18, 1998, at 11:00 a.m., in Room 338 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Bob Leeper and Denny Nunnelley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Tom Howard and Paul Ruby, Office of Financial Management and Economic Analysis; Sherron Jackson, Council on Postsecondary Education; Kevin Mason, Workforce Development Cabinet; Dr. Bob Tarvin, School Facilities Construction Commission; Commissioner Kenny Rapier and Bob Bender, Department of Parks; David Bratcher, Economic Development Cabinet; Jim Owens, Department of Fish and Wildlife Resources; and Jack Affeldt, LRC.

LRC Staff: Mary Lynn Collins and Shawn Bowen.

Representative Graham made a motion to approve the minutes of the January 20, 1998, meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Damron reviewed correspondence items in members' folders which included the Kentucky Lottery Corporation's monthly financial status report for December 1997; correspondence from Finance Cabinet Secretary John McCarty regarding unbudgeted capital projects for the University of Kentucky and the University of Louisville approved during the January Committee meeting; and a report from Commissioner Armond Russ, Department for Facilities Management, regarding the March 1997 flood.

Chairman Damron called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to report on four projects submitted to the Committee by the Finance and Administration Cabinet.

The first item Mr. Hintze discussed was the Pine Mountain State Park Lodge Renovation project. This project includes renovation of the lodge and replacement of the existing swimming pool. Mr. Hintze said the pool replacement portion of the project was originally bid as part of a larger renovation project, but was removed after bids came in over scope. Next, the pool was bid separately, but again bids came in over scope.

Mr. Hintze said the project was recently bid a third time. During this third round of bids, the lowest bid came in 11.3% over the authorized project scope, and the Cabinet is recommending an allocation of $258,500 from the Capital Construction and Equipment Purchase Contingency Account to meet the low project bid.

Mr. Hintze said his office and the Finance Cabinet feel this is their opportunity to replace the pool, and avoid problems with the local Health Department. The pool has been under a health advisory for the past two summers, but the Health Department has permitted it to remain open, based on assurances that a new swimming pool would be forthcoming.

Representative Marcotte made a motion to approve an allocation of $258,500 from the contingency account for the Pine Mountain State Park Lodge Renovation project. The motion was seconded by Senator Nunnelley and passed by voice vote. The revised project scope is $2,538,500.

Next, Mr. Hintze discussed a project for the Kentucky Horse Park that involves construction of additional horse stalls which will produce additional rent income for the park during special events. The special event horse stalls were authorized during the 1996 General Assembly for $599,900. Mr. Hintze said the Kentucky Horse Park had to compartmentalize the bids on this project because of funding constraints. Phase one of the project consisted of site preparation and adding utilities to the site; the current phase includes constructing five barns. The final phase, included in the 1998-2000 Executive Budget recommendation at a scope of $435,000, will be installation of 250 permanent stalls.

Mr. Hintze said the barn construction bid came in 13.3% over scope, and the Cabinet is recommending an $80,000 allocation from the Capital Construction and Equipment Purchase Contingency Account to meet the low project bid. He noted this phase will make the barns usable, and if the General Assembly approves the Executive Budget recommendation for the additional $435,000, the Horse Park will repay the $80,000 to the contingency account.

Representative Marcotte noted the reason this project had to be compartmentalized was a statutory prohibition against agencies using their own labor, a prohibition the Horse Park was not aware of when funding was originally sought. He asked what the cost difference would be if the Horse Park could use its own labor for this project. Mr. Hintze said he was not sure what the difference would be. Commissioner Russ said if an agency or department uses its own labor and supplies, it is limited to a $125,000 expenditure limit. Funds to be used for this purpose are placed in what is called a “force account”.

In response to a question from Chairman Damron, Mr. Hintze said the statute regarding force accounts has been in effect for a long time, and the $125,000 expenditure limit has been in place approximately four years. In response to another question from Chairman Damron, Mr. Hintze said GOPM would be willing to review the statutory expenditure limit with Committee staff and support a change within limits. Chairman Damron directed Mr. Hintze and Commissioner Russ to work with Committee staff to prepare draft language to increase the threshold. He said he would propose adding the language as an amendment to a bill he was sponsoring relating to capital construction.

Senator Nunnelley made a motion to approve an allocation of $80,000 from the contingency account for the Kentucky Horse Park project. The motion was seconded by Senator Leeper and passed by voice vote. The revised project scope is $679,900.

Next, Mr. Hintze discussed the Eastern Kentucky University (EKU) Classroom Building/Wellness Center. He explained this project was authorized by the 1996 General Assembly for $4,750,000 ($4,000,000 in state funds and $750,000 in restricted funds).

He said EKU has bid the project, and the low bid came in 11.6% over the authorized project scope. Mr. Hintze reported the University wishes to award the contract, and has agreed to raise an additional $553,297 to cover the cost overrun from University agency receipts. The revised project scope will be $5,303,297.

Senator Nunnelley made a motion to approve the cost overrun on the EKU Classroom Building/Wellness Center project. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Hintze discussed an unbudgeted, 50% federally-funded project for Kentucky Educational Television (KET). He said KET received a $305,014 grant from the National Telecommunications and Information Administration (NTIA), which will be used to install three digital uplinks on the campuses of EKU, Murray State University, and the University of Louisville. Mr. Hintze said the three universities have entered into a formal agreement with KET to provide the required 50% matching funds for the grant. The total project scope is $610,028.

Representative Graham made a motion to approve KET's purchase and installation of three digital uplinks at EKU, Murray State University, and the University of Louisville. The motion was seconded by Senator Nunnelley and passed by voice vote.

The final project Mr. Hintze discussed was the Cedar Creek Reservoir in Lincoln County. Mr. Hintze said the Department of Fish and Wildlife Resources is the lead agency on this project, and the land acquisition will be administered by the Transportation Cabinet. The acquisition includes the purchase of 1,590 acres of land to create an 800-acre lake and a 300-foot buffer zone. Mr. Hintze reported the Department of Fish and Wildlife Resources will contribute $1.5 million from its land acquisition pool funded in 1994, and the funds are eligible for 100% federal reimbursement.

Chairman Damron said action is not required for acquisitions made from authorized land acquisition pools.

Next, Mr. Jim Abbott, Director, Division of Real Properties, presented lease modification reports for three existing state leases. He reported on PR-3418, a lease for the Kentucky Workers' Compensation Funding Commission, located in Franklin County. He said the lessor is the E. Randle Company, and the action being taken is to amortize $2,100, plus 9.75% interest, over the remaining term of the lease (June 20, 2002). The lease modifications include removing a wall that separates two offices, making electrical changes, and replacing the carpet as needed.

The second modification Mr. Abbott reported was for PR-3876, a lease with the Personnel Cabinet, located in Franklin County. Mr. Abbott reported the lessor is Leestown Partners, and the action being taken is to amortize $1,750, plus 8.75% interest, over the remaining term of the lease (June 30, 1999). The lease modifications include installation of five 20 amp dedicated circuits, two standard 110 volt outlets, and one 220 volt 20 amp circuit for the installation of a shredder. The electrical work is necessary for an Empower Kentucky initiative that requires the replacement of state government central personnel files with an on-line imaging system. In response to a question from Chairman Damron, Mr. Abbott said agency funds, not Empower Kentucky funds, will be used to cover the cost of these modifications.

The last modification Mr. Abbott reported was for PR-4205, a lease for the Kentucky Kare Health Insurance Authority, located in Franklin County. The lessor is the E. Randle Company, and the action being taken is to amortize $3,860 through June 30, 1998. The lease modifications include remodeling the board room for increased privacy, providing additional office/storage space, adding/removing doors and walls, and making necessary changes to HVAC and electrical outlets.

Chairman Damron said lease modifications of less than $50,000 must be reported to the Committee within 30 days, but do not require Committee action.

Chairman Damron said next on the agenda were bond activity reports from the Office of Financial Management and Economic Analysis (OFMEA). Mr. Tom Howard, OFMEA, was present to report a new bond issue for the Kentucky Economic Development Finance Authority (KEDFA).

Mr. Howard said $2,185,000 in KEDFA Revenue Refunding Bonds, Series 1998, will be issued for the Thomas More College project. The bonds will be used to refund $2,065,000 worth of outstanding KEDFA bonds issued for the college in 1990. Mr. Howard said the date of sale is March 1, 1998, and the length of term is seven years. He said the expected net interest rate is 5.61%, and total present value savings are $91,422. Mr. Howard said the bonds are callable at any time and will be sold as a private, negotiated placement with Fifth Third Leasing Company. Peck, Shaffer and Williams is bond counsel and trustee is Fifth Third Bank.

Chairman Damron explained the bonds issued by KEDFA for Thomas More College are conduit bonds, and additional information about conduits was in the folder materials. He said the Committee may want to have a presentation at another meeting regarding conduit bonds.

Representative Marcotte made a motion to approve the KEDFA bond issue for Thomas More College. The motion was seconded and approved by voice vote.

Next, Mr. Howard presented follow-up bond reports for Eastern Kentucky University (EKU) and the Kentucky Asset Liability Commission (KALC). Mr. Howard reported EKU Consolidated Educational Buildings Refunding Revenue Bonds, 1998 Series S and T, were sold on January 22, 1998, and closed on February 4, 1998. He said the Series S bonds were issued to refund Series N and Series O bonds, and the Series T bonds were issued to refund Series P bonds. Mr. Howard said the principal amount to be refunded is $16,645,000, and the final maturity date is May 1, 2011. He said the total interest cost was 4.47%; for comparison purposes, he said the total interest cost for the Bond Buyer 25 Index during that same period was 5.03%. Net present value savings for the issues were $1.2 million. The bonds were rated Aaa by Moody’s and AAA by Standard and Poor’s, and were sold to Hilliard and Lyons by competitive sale. Bond counsel was Peck, Shaffer & Williams and trustee was Bank One, Kentucky.

Next, Mr. Howard presented a follow-up report for KALC. He said KALC issued Project Notes, 1998 General Fund Series, in the amount of $157,000,000. The proceeds of the bond issue, which will ultimately be replaced by permanent financing, will provide interim construction financing for approximately $156,000,000 worth of State Property and Building Commission projects. Mr. Howard said the bonds were sold on February 3, and closed on February 4, 1998. He said the final maturity date is June 30, 2001, and the notes are subject to optional redemption prior to the final maturity on any interest payment date. Total interest cost is 3.55%, based on a variable rate structure compared to the 5.11% Bond Buyer 25 Index for the same period. Ratings were Aa2/VMIG1 by Moody's and AA+/F1+ by Fitch. Managing underwriter was Bear Stearns & Co.; bond counsel was Peck, Shaffer & Williams; underwriter's counsel was Brown, Todd & Heyburn; and trustee was Bank One.

Chairman Damron said no action is required on either of these issues as they were previously approved by the Committee.

Chairman Damron asked Senator Leeper to take over duties of the Chair for the next two agenda items. Senator Leeper called on Mr. Howard to report on thirty-four new SFCC issues, all of which were refunding issues and did not require a tax increase: Ballard Co. - $4,025,000 to refund 1991 bonds; Bardstown Ind. (Nelson Co.) - $5,105,000 to refund 1992 bonds; Bath Co. - $1,080,000 to refund 1991 bonds; Bell Co. - $3,310,000 to refund 1991 bonds; Calloway Co. - $2,270,000 to refund 1988 and 1990 bonds; Carroll Co. - $2,170,000 to refund a portion of 1991 bonds; Covington Ind. (Kenton Co.) - $465,000 to refund a portion of 1991 bonds; Dayton Ind. (Campbell Co.) - $480,000 to refund 1989A bonds; Floyd Co. - $2,525,000 to refund 1991 bonds; Ft. Thomas Ind. (Campbell Co.) - $705,000 to refund 1991 bonds; Gallatin Co. - $1,220,000 to refund a portion of 1991 bonds; Garrard Co. - $2,885,000 to refund 1991A bonds and $2,135,000 to refund 1991B bonds; Harrison Co. - $790,000 to refund 1986 bonds; Henderson Co. - $2,560,000 to refund 1991 bonds and $2,830,000 to refund 1990 bonds; Larue Co. - $5,620,000 to refund 1992 bonds; Leslie Co. - $6,175,000 to refund a portion of 1991 bonds; Ludlow Ind. (Kenton Co.) - $2,030,000 to refund 1989, 1991A, and 1991B bonds; Madison Co. - $720,000 to refund 1991 bonds; Mason Co. - $685,000 to refund 1989 bonds; McCreary Co. - $3,560,000 to refund a portion of 1991 bonds; McLean Co. - $1,275,000 to refund 1989 bonds; Nelson Co. - $4,275,000 to refund 1989 bonds and to partially refund 1991 bonds; Pendleton Co. - $765,000 to refund 1989 bonds and $1,740,000 to refund 1991 bonds; Providence Ind. (Webster Co.) - $1,130,000 to refund 1991 bonds; Russell Co. - $1,000,000 to refund 1989 bonds; Shelby Co. - $10,385,000 to refund 1991 bonds; Taylor Co. - $680,000 to refund 1989 bonds and $1,345,000 to refund 1991 bonds; Wayne Co. - $945,000 to refund 1990 and 1991 bonds; Williamstown Ind. (Grant Co.) - $1,270,000 to refund a portion of 1991 bonds; and Woodford Co. - $6,195,000 to refund 1987 bonds and to partially refund 1990 and 1991 bonds.

Representative Graham made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Senator Leeper said there were nine new local school district bond issues with locally-funded debt service that did not require a tax increase. Local school bond issues were reported for the following school districts: Anchorage Ind. (Jefferson Co.) - $150,000 to refund 1991 bonds and to make site improvements at the elementary school; Boone Co. - $10,400,000 to refund 1992 bonds; Burgin Ind. (Mercer Co.) - $685,000 to refund 1992 bonds; Estill Co. - $490,000 to add six classrooms to the elementary school; Lee Co. - $1,525,000 to refund 1991 bonds; Menifee Co. - $1,615,000 to refund 1992 bonds; Nicholas Co. - $600,000 to refund 1990 bonds, and $1,305,000 to refund 1991 bonds; Owensboro Ind. (Daviess Co.) - $1,055,000 to refund 1990 bonds.

Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was enclosed in members' folders along with legislation under consideration relating to the Committee's jurisdiction; a report from the LRC Economists Office addressing the state's debt position; and a summary of the Governor's General Fund Surplus Expenditure Plan.

Chairman Damron discussed budget issues. He noted the Governor was now proposing to give the Secretary of Finance and Administration Cabinet discretionary ability to substitute debt financing for cash financing for the proposed university endowments ($110 million). In response to a question from Representative Wayne, he explained that bonded endowments would be considered taxable issues, because they are not considered tangible assets. This will make the actual cost of issuance higher than tax-exempt bonds typically issued by the State for construction. He further elaborated on the proposed endowments, saying if the Finance Secretary chose to cash fund the endowments, the first $110 million of projects in the Surplus Expenditure Plan's Statewide Infrastructure Program, now proposed to be cash funded, would be bond-funded instead.

Chairman Damron also noted that questions have been raised as to what the Committee's oversight role might be for the local projects contained in the Surplus Expenditure Plan's Statewide Infrastructure Program. Chairman Damron said the Committee may want to pursue this issue with GOPM as the budget bill moves through the Appropriations and Revenue Committee.

Chairman Damron announced that Esther Robison, Committee Assistant, is retiring and a reception will be held in her honor on Friday, February 27, from 2:00 p.m. to 4:00 p.m. in Room 113 of the Capitol Annex.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 11:25 a.m.